

OUS, Budget Reduction Planning

In October 2009, the Legislative Fiscal Office (LFO) requested information regarding how state agencies would deal with the possibility of 10 percent budget reduction options in 5 percent increments. This was discussed with the Finance and Administration Committee in November and it was their preference that this matter be discussed with the full Board at their next meeting. Thus, we submitted a tentative response, pending further Board discussion on the due date in November, with a notation that this information would be updated once the full Board had a chance to consider this response more fully at its January 2010 meeting. The preliminary response that was submitted in November is attached as Attachment A.

A 10 percent reduction equates to \$75.2 million as the reduction will apply only to State General Funds authorized in the 2009-2011 Legislative Session. This excludes 10 percent of the \$69.4 million that OUS received from the American Recovery and Reinvestment Act. For purposes of this exercise, we are to submit plans by our four primary appropriations: 1) Education and General – includes funding for the seven campuses and the Chancellor's Office; and the three Statewide Public Service (SWPS) activities at Oregon State University: 2) Agricultural Experiment Station; 3) Extension Service; and 4) The Forest Research Lab.

Attachment B shows what a 10 percent reduction in State General Fund funding would equate to for each institution, the Chancellor's Office, and the three Statewide Public Services entities assuming these cuts were made on a prorata basis. This is not to say that this is the methodology we would recommend for allocating these cuts across the OUS, rather it is only intended to give the Board an idea of what a prorata distribution would look like.

In December, this request was discussed with the President's Council and they determined the approach to be used in responding to this reduction exercise. That included an agreement that we needed to respond to this by fiscal year as actions this year would be constrained by the lateness of any notification assuming such was delivered in February or March (8-9 months into the fiscal year). Thus for the 2009-10 fiscal year, institutions would 1) first deploy fund balances – balances that had largely accumulated due to employee furloughs, pay reductions, and other actions that have already been taken by campuses to reduce spending given these uncertain economic times; and 2) taking actions to further reduce costs where possible. Although additional, mid-year (2009-10) tuition increases and enrollment restrictions were contemplated, everyone agreed that we have a commitment to serve the current students and thus they agreed not to pursue these actions in 2009-10.

For 2010-11, given the majority of the reductions would impact this second year of the biennium, it was agreed that depending on the level of cuts actually realized, we may need to restrict enrollment of freshmen or new transfer students as we may simply not have sufficient funding to offer quality programs to these prospective students. It was further agreed that, again, given the magnitude of the reductions, in order to either offset some of these cuts or buy-back the capacity to not restrict enrollment, we may need to increase tuition beyond the

amounts expressed in the OUS Budget Note (5 percent for regional universities and 8 percent for the large universities.)

Given this general agreement, campuses were then asked to detail how they would approach these reductions. The following is a compilation of their responses:

5 percent Budget Reduction = \$37.6 million:

- \$13.0 million – deploy fund balances to offset reductions. Note: fund balances have accumulated due to salary reductions, employee furloughs, and other actions taken by campuses to control costs during this uncertain time.
- \$24.6 million – additional expense reductions. Eliminates an estimated 267.4 employee FTE
 - Expenditure reductions resulting in cuts to administrative and support services, eliminating low enrollment classes, and merging or eliminating small programs. This could lead to students having to stay in school longer to obtain needed classes resulting in higher debt loads upon graduation, etc.
 - Elimination or reduction of additional faculty and staff positions – obviously, when OUS is experiencing record high enrollment demand this has the potential to reduce both the quality of services offered and the amount of students institutions can service.
 - Reductions in other spending – this would mean less spending on services and supplies, capital outlay, etc. Again, with record enrollments this can lead to inadequate support for instructional, research, and public service activities leading to a diminution in quality and scope of such services. In addition, this could contribute to the growing backlog of deferred maintenance and erosion of other environmental conditions.
 - Added cuts may force WOU to abandon its Tuition Promise program as this was predicated on adequate state support.
 - As OUS institutions are major employers and purchasers of goods and services, institutions have a significant economic impact on the areas in which they are located. As such, any reductions in employment or spending at these institutions will have multiplier effects in the local economies. These multiplier impacts measure both the direct effects from reduced purchases of goods and services directly by the university, as well as the indirect impacts of a reduced payroll and thus reduced employee spending (from both the university itself and its vendor community) in the local economy. The estimated economic impact of reductions of this magnitude is estimated to be \$49.2 million, primarily in the following counties: Benton/Linn, Polk/Marion, Lane, Multnomah, Washington, Clackamas, and Klamath.
- All institutions will strive to continue to serve current students at their institutions. However, most campuses agree that cuts at the 5 percent level will limit future capacity to serve approximately 900 new freshmen and transfer students in the 2010-11 academic year

- Given the sources of new students in Fall 2009, these students are likely to be from the following counties in Oregon:
 - Clackamas – 102
 - Deschutes – 23
 - Jackson – 29
 - Klamath – 41
 - Lane – 46
 - Marion – 44
 - Multnomah – 264
 - Polk – 13
 - Washington – 164
 - Yamhill – 13
 - All others – 161
- Alternatively, allowing five institutions to increase tuition in 2010-11 by 2 to 5 percent above the limits expressed in the budget note would buy-back the capacity to serve these 900 Oregonians.
- No institutions are requesting mid-year tuition increases in 2009-10.

10 percent Budget Reduction = \$75.2 million:

- \$15.3 million – deploy fund balances to offset reductions. Note: fund balances have accumulated due to salary reductions, employee furloughs, and other actions taken by campuses to control costs during this uncertain time.
- \$59.9 million – additional expense reductions – eliminates an estimated 651.1 employee FTE with the following consequences:
 - Reduced sections and programs translate into reduced instructional capacity.
 - Reductions in student services stifle retention and student success initiatives.
 - Reduced administrative capacity exposes OUS to greater risk of loss and significantly weakens internal control structure creating audit issues and concerns.
 - Added cuts may force WOU to abandon its Tuition Promise program as this was predicated on adequate state support.
 - Reduced instructional capacity may cause students to stay in college longer, increase student debt loads, or have less success in degree attainment.
 - Elimination or reduction of faculty and staff positions – obviously, when OUS is experiencing record high enrollment demand this has the potential to reduce both the quality of services offered and the amount of students institutions can service.
 - Reductions in other spending – this would mean less spending on services and supplies, capital outlay, etc. Again, with record enrollments this can lead to inadequate support for instructional, research, and public service activities leading to a diminution in quality and scope of such services. In addition, this could contribute to the growing backlog of deferred maintenance and erosion of other environmental conditions.
 - As OUS institutions are major employers and purchasers of goods and services institutions have a significant economic impact on the areas in which they are located. As such, any reductions in employment or spending at these institutions will

- have multiplier effects in the local economies. These multiplier impacts measure both the direct effects from reduced purchases of goods and services directly by the university, as well as the indirect impacts of a reduced payroll and thus reduced employee spending (from both the university itself and its vendor community) in the local economy. The estimated economic impact of reductions of this magnitude is estimated to be \$119.8 million, affecting all regions of the state with impacts concentrated around areas where universities are located.
- All institutions will strive to continue to serve current students at their institutions. However, most campuses agree that cuts at the 10 percent level will limit future capacity to serve approximately 3,090 new freshmen and transfer students in the 2010-11 academic year.
 - Given the sources of new students in Fall 2009, these students are likely to be from the following counties in Oregon:
 - Benton – 26
 - Clackamas – 339
 - Columbia – 28
 - Coos – 10
 - Deschutes – 78
 - Douglas – 25
 - Jackson – 97
 - Josephine – 14
 - Klamath – 138
 - Lane – 192
 - Linn – 22
 - Marion – 146
 - Multnomah – 880
 - Polk – 42
 - Washington – 547
 - Yamhill – 44
 - All others – 462
 - Alternatively, allowing five institutions to increase tuition in 2010-11 above limits contained in budget note to buy-back instructional capacity to serve these 3,090 students. Increases would range from 2 percent to 13.5 percent above cap on resident undergraduate tuition with 30 percent set aside for added need-based aid.
 - No institutions are requesting mid-year tuition increases in 2009-10.

Enrollment Restrictions

The starting point for this discussion is the expectation that enrollment in OUS universities will increase by another 3,000 next year, from 92,000 to 95,000. Irrespective of the reductions, the presidents have agreed to continue to serve current students, thus this would only affect new/added enrollments above the current baseline. Budget reductions at the 5 percent level will potentially restrict OUS' capacity to 94,100 students thereby denying access to

approximately 900 resident freshmen and new transfer students. The 10 percent cut level will force OUS to hold steady at the current 92,000, thereby denying access to approximately 3,000 resident freshmen and new transfer students in the fall of 2010.

Staff Recommendation to the Board:

Given the magnitude of the possible budget reductions confronting the State and OUS, staff recommends that the Board adopt this plan and direct the Chancellor to update the information provided to LFO to reflect this plan.

(Board action required.)

